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MANUAL

OF REFERENCES AND EXERCISES
IN ECONOMICS

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MANUAL

OF REFERENCES AND EXERCISES IN ECONOMICS

FOR USE WITH

VOLUME II. MODERN ECONOMIC PROBLEMS

BY

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NEW YORK
THE CENTURY CO.
1917

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FOREWORD

This Manual follows the lines of the "Manual of References and Exercises," published in the autumn of 1916, to accompany the volume on Economic Principles.

The literature of the field treated in "Modern Economic Problems" is now so vast that no more than a few of the titles could be included in the following lists. The references given are usually the more recent of those that would be helpful to students desiring to go more deeply into the subjects.

The collection of questions and exercises is based upon the list printed, first in 1904 and much enlarged in 1910, in the author's "Principles of Economics." Much material has been added that had been shaped and used in class work at Princeton University, and a few other problems have been drawn from, or suggested by, other published lists. The plan of indicating the original sources of a number of these questions has been found to be too difficult to be completed for the present edition. Indeed, it appears that numerous test problems have become a common heritage for economic teachers, and one can hardly be sure when one has traced the ideas to their original sources. Some of them have appeared in somewhat differing forms in various lists for a half century past.

Particular acknowledgment is made to my colleagues, Professors Adriance and McCabe, who devised a number of the questions for class use; and to Dr. Stanley E. Howard, who has given most valuable aid in the preparation of this Manual in its present form.

F. A. F

Princeton, N. J., February, 1917.

MANUAL

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CHAPTER 1

MATERIAL RESOURCES OF THE NATION

REFERENCES. (Those marked with an asterisk (*) are the shorter assignments that are most applicable.)

Adams, C. C., Commercial geography. 1906.

Marsh, G. P., Man and nature: or physical geography as modified by human action. 1864. (Later editions under the title, "The earth as modified by human action.")

**Materials*, 58-61 (Extract from *Mason, O. T.*, Technogeography, or the relation of the earth to the industries of mankind. American Anthropologist, 7: 135-158. 1905); 61-66 (extract from *Semple, E. C.*, Influence of geographic environment. 1911.)

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**Source Book*, 292-302 (extract from); *Daniels, W. M.*, Economic causes as affecting the political history of the United States. Accountants' Magazine, May, 1907.

Teele, R. P., Irrigation in the United States. 1915.

Trotter, S., the geography of commerce. 1903.

United States Census, 1910. Volume on wealth, debt, and taxation.

Van Hise, C. R., Conservation of natural resources. 1910.

QUESTIONS.

1. What relation can be observed between general industrial conditions and the per capita wealth? Between the character of the people and the per capita wealth? Can countries be grouped geographically according to per capita wealth?

2. How does the United States compare with other countries with respect to the estimated amounts and values of cereal products? Textile fibres? Coal? Iron and copper ore? Present the results of your study in tabular form.

3. From the reports of the Thirteenth Census prepare a statement

in tabular form showing the geographical distribution of our chief domestic sources of supply of the leading cereals, of neat cattle, of textile fibres, of coal, iron ore and copper ore, and of water power.

4. What physical conditions account for the greatness of ancient Egypt, of Venice, of Holland, of England, of the United States?

5. Has the isothermal line any relation to the number of millionaires?

CHAPTER 2

THE PRESENT ECONOMIC SYSTEM

REFERENCES.

Cooley, C. H., Human nature and the social order. 1902.

Cooley, C. H., Personal competition. Amer. Econ. Assn., Econ. Studies, 4: 78-173. 1899.

**Ely, R. T.*, Competition: its nature, its permanency, and its beneficence. A. E. Assn. Pubs., 3d ser., 2: 55-70. 1901.

Ely, R. T., Evolution of industrial society. 1903.

Ely, R. T., Property and contract in their relation to the distribution of wealth. 1914. (2 vols.)

Giddings, F. H., The economic ages. P. S. Q., 16: 193-221. 1901.

**Gray, John H.*, Economics and the law. A. E. Rev., 5 (no. 1, supp.): 3-23. 1914.

Kinley, David, The renewed extension of government control of economic life. A. E. Rev., 4 (no. 1, supp.): 3-17. 1914.

Schmoller, Gustav, The mercantile system. Trans. by Ashley, 1896.

QUESTIONS.

1. State briefly and criticize the theories of the origin of private property.

2. What have been the theories put forward to justify the system of private property in the past?

3. Under private property, can men complain of the use made by others of their wealth on the ground merely that it was unwise?

4. What are the recognized limitations upon the right of private property? Are these limitations in opposition to the principle by which private property is now generally defended?

5. Is the right of bequest a necessary condition of private property?

6. Do you know of any father who created more wealth because he could bequeath it to his son?

7. Does the son work as hard when he inherits his father's wealth?

8. What is the effect of private property on saving?

9. What is meant by the "Factory System."

10. Through what historic stages has production passed?

CHAPTER 3

NATURE, USE AND COINAGE OF MONEY

REFERENCES.

Jevons, W. S., Money and the mechanism of exchange. 1875. Chs. III-VII, XIII.

**Johnson, J. F.*, Money and currency. 1905. Chs. I, II, IX.

**Phillips, C. A. (Ed.)*, Readings in money and banking. 1916. Chs. I-III, XIV.

Walker, F. A., Money in its relations to trade and industry. 1st ed. 1879. Chs. I, II.

White, Horace, Money and banking illustrated by American history. Ed. 1914. Bk. I.

QUESTIONS.

1. What are the qualities of metallic money?

2. What is the difficulty in deciding whether to call the following money: gold ingots, gold coin, silver dollars, copper cents, greenbacks, bank-checks, chalk-marks to keep account?

3. Who makes coins? Would jewelers make better ones?

4. What are the advantages and disadvantages of a seigniorage tax?

CHAPTER 4

THE VALUE OF MONEY

REFERENCES.

Fisher, Irving, The purchasing power of money. 1911.

Gibson, Thomas, Special market letters on the increasing gold supply and its effect on security values; interest rates; commodity prices, etc. 1908.

**Johnson*, chs. III-VIII, X.

Kemmerer, E. W., Money and credit instruments in their relation to general prices. 2d ed. 1909.

Magee, J. D., Money and prices. J. P. E., 21: 681-711, 798-818. 1913.

**Phillips*, chs. VIII, XI.

Round table discussion, Money and prices. A. E. Assn. Bul., 4th ser., 1 (no. 2): 46-70. 1911.

**Source Book*, 303-313. (Extract from report of the Secretary of the Treasury, 1911.)

United States Secretary of the Treasury, Finance report, 1911.

Walker, F. A., chs. IV, V.

QUESTIONS.

1. What are the functions of money?

2. What are the principal things besides money uses that cause a demand for gold and silver.

3. Why do you value money? Do you value it more than the things it buys?

4. When goods are exchanged for money or money for goods, what is the gain?

5. If money is a tool, what does it make?

6. When gold comes out of the mine is the gain to the community greater or less than when the same value of grain is harvested?

7. Are men wealthy in proportion to the money they have? Are countries?

8. Would a nation be poorer, if, like Sparta, it prohibited all money?

9. Is a community poor because it has little money in circulation or does it have little money in circulation because it is poor?

10. Could a country better do without money, horses, or roads?

11. Why does nearly all the gold produced in California leave the state? What keeps any of it there?

12. The mint price of an ounce of gold, .900 fine, is alike at San Francisco and Philadelphia, $18.604. Why is gold ever shipped from California to New York?

13. Does gold cost the day-laborer as much in California as in New York?

14. Note any habits of friends that result in their carrying more or less money than others of the same income.

15. What determines the amount of money needed by different persons, towns, states, and nations?

16. Give examples of things that increase the demand for money.

17. On an isolated island would it make any difference as to the value of money if there were but one gold-mine or several competing ones, supposing that the output were the same?

18. What per cent. of the total money in the world is the yearly output of gold; of silver; of gold and silver? Stat. Abst.

19. Is the value of gold and silver due to the action of government?

20. In what ways may the government determine the value of the monetary standard?

21. If all the different denominations of media of exchange were doubled in number, exchanges remaining unchanged, what would be the effect upon prices?

22. Is it true of all commodities that changes in supply affect their value proportionally? Is it true of money? If in your opinion there is any difference, explain it.

23. If the amount of coal in a country should be increased twenty-five per cent., in what percentage would you expect the value of coal to change? Give reasons. If the amount of money in a country should be increased twenty-five per cent., in what direction and in what percentage would the value of money change? Give reasons. (In each case the condition is "other things being equal.")

24. If in a given community all watch cases were made of gold, and each case contained one ounce of gold, would you expect the value of watch cases to fall by exactly one-half if the number of watch cases in the community were doubled, all other things remaining the same? If in another community (at another time) all exchanges were made exclusively by the use of gold coins, each containing an ounce of pure gold, would you expect that prices in general would be exactly doubled in case no change occurred in the community except a doubling of the number of coins in circulation?

25. Why might an increased resort to barter produce upon the general level of money prices effects similar to those produced by an increased use of credit media of exchange?

26. What gives rise to the belief sometimes held that money is an invariable standard of value?

27. Define depreciation and appreciation of the currency. What causes may produce either? What are the effects of either? More generally, what determines the value of the currency?

28. If gold were to become as plentiful as iron, would it be worth more or less than iron?

29. A nation having no foreign trade had originally in circulation 1,000,000 coins, each called a florin, and each containing an ounce of pure metal. To this original coin circulation the government adds 500,000 florins each containing one-half ounce of pure metal, and at the same time the government adds to the circulation 600,000 florins in the shape of inconvertible paper. Both the half ounce florin and the paper florin are by law made legal tender for a full weight florin. In the absence of any tendency to discriminate between accepting different kinds of florins in domestic trade, and with no other changes

in the money situation except such as are necessitated by the aforesaid additions to the circulating medium, tell, first, what ultimately will be the number of florins in circulation, and give your reasons; and tell, second, of what kinds of florins and in what proportions the ultimate circulating medium will be composed.

30. Assume a country using gold alone as money and having in circulation 2,000,000 coins, under a system of free coinage. What would be the effect of closing the mints and issuing 1,500,000 new coins containing nine-tenths as much gold as the coins above mentioned, assuming that the number of goods exchanged remains the same? Explain clearly. What is the total quantity of such new coins the government can issue and keep in circulation? Explain clearly.

31. A country using gold money as its sole medium of exchange, under free and gratuitous coinage, makes the following change: it imposes a seigniorage charge of ten per cent., but without giving up free coinage or reducing the amount of fine gold in the coin. To what extent and in what direction will the value of money change, if at all

(a) if the number of goods exchanged gradually increases five percent.;

(b) if the number of goods exchanged gradually increases twenty-five percent.?

Give your reasons clearly.

CHAPTER 5

FIDUCIARY MONEY, METAL AND PAPER

REFERENCES.

**Jevons*, chs. VIII, XVII, XVIII.
**Johnson*, chs. XIII-XVI.
Kemmerer, E. W., Modern currency reforms. 1916.
**Phillips*, chs. IV, V, XII.
United States Director of the Mint, Annual reports.
Walker, chs. VIII-XII.
White, Bk. II, chs. III-VI.

QUESTIONS.

1. When 5160 grains of standard gold (i.e., by weight nine-tenths fine, with the other tenth composed of the alloy used in gold coin of the United States) sell in New York for $201.25 has the money "saturation point" been reached or exceeded, and will bullion be taken to the mint or coin melted down or exported?

2. Define legal-tender as applied to money. What is meant by fiat money?

3. Is a United States standard silver dollar commodity or fiduciary money? What determines its value? Of what importance is its legal tender quality?

4. Is the provision of law whereby the fractional silver coins of the United States are of less proportionate silver content than the standard silver dollar necessary to-day? Is it useful? Give your reasons.

5. Under what conditions will "bad money" fail to displace "good money" from circulation?

6. Under what circumstances will money that is not in fact convertible into other money have greater value than the material of which it (the first mentioned money) is made? Give an example from the monetary experience of the United States.

7. In a country which has hitherto had free and gratuitous coinage of gold, the government institutes a seigniorage charge of five per cent. by reducing to that extent the amount of gold put into each coin; the gold withheld by the government is not coined. What will be the effect of this seigniorage charge upon (a) prices in that country, (b) the comparative value of the gold in a new coin and the same weight of uncoined gold? Make your reasoning clear.

8. If a nation's entire money circulation consisting of 1,000,000 coins, all of them debased by a seigniorage charge of 50 per cent., were at once increased by the government's putting into circulation 300,000 pieces of inconvertible paper money, each piece of the same demonination as each coin, what effects might be anticipated on the basis of Gresham's law or otherwise, it being presupposed that the full amount of full weight coin required to conduct the nation's exchanges is only 900,000? Give your reasons.

9. A certain island has no silver mines and no foreign trade. It effects all its exchanges by the actual use of silver coin whose coinage is free and gratuitous. It has no banks, and does not resort either to barter or to credit. Silver is also used in the shape of plate in the island. Originally it had 100,000 silver coins in circulation, each containing one ounce of pure silver. After a certain date, as these coins were paid into the government treasury for taxes, at the rate of 5,000 one-ounce coins per week, the one-ounce coins were melted and the resulting bullion was recast, each new coin weighing 2 ounces and bearing the same name as the original one-ounce coins. Thereafter all coins struck at the island Mint contained two ounces of silver, and at that standard coinage continued free and gratuitous. When the

government first pays out the new 2-ounce pieces, will they remain in circulation with the old one-ounce coins and have the same purchasing power? Give reasons.

10. If the above-described process of reminting 5,000 one-ounce coins per week continues for twelve weeks and then stops, how many old and how many new coins will at the end of the twelfth week be in circulation? Reasons.

11. The government of the island of Guernsey having no money, issued paper-notes to pay for the building of a market. They circulated and were gradually taken up as the market earned its cost, during ten years. When they were all redeemed and burned, the island had the market free of cost. Explain how this could be done. (From Sumner's Problems in political economy.)

12. Suppose a nation has 1,000,000,000 gold coins, each weighing one ounce (Troy) as its only circulating medium. Suppose that the government enacts that henceforth coins will be uttered containing only 99 per cent. as much pure gold as heretofore, the government taking one per cent. for its own use.

Suppose "other things remain the same." What effect will this action have on the number of coins circulating?

Will prices be affected?

Now suppose the demand for money increases. Will bullion owners bring their bullion to the mint for coinage?

Suppose this government had continued to utter coins of the same weight and fineness as before, but had kept back one per cent. of the bullion brought to the mint for its own use. Answer these three questions in the light of this supposition.

13. Tabulate the index numbers, the greenback price of the gold dollar, and the gold price of the greenback dollar, from 1861 to 1879.

14. Show the difference between convertible and inconvertible money.

15. Contrast the position of the commodity money theorists with that of the fiat money theorists.

16. In a gold-standard country, one-half of whose monetary circulation consists of silver dollars (which are unlimited legal tender) and of silver certificates payable on demand in silver dollars (and supported dollar for dollar by silver dollars in reserve), and whose mints are closed to the free coinage of silver, how would the money value of the silver dollars and silver certificates be affected if the gold price of silver should fall (1) 10 per cent.? (2) 50 per cent? (3) 5 per cent.? How would it be affected if the value of gold should fall 10 per cent? (Free coinage of gold is assumed). Explain the principles involved in your answer.

CHAPTER 6

THE STANDARD OF DEFERRED PAYMENTS

REFERENCES.

Fisher, Irving, Appreciation and interest. A. E. Assn. Pubs., 11: 331-442. 1896.

Fisher, Irving, A remedy for the rising cost of living—standardizing the dollar. A. E. Rev., 3 (no. 1, supp.): 20-28. 1913. Round table discussion of above, 29-51.

Fisher, Irving, Objections to a compensated dollar answered. A. E. Rev., 4: 818-839. 1914.

**Jevons,* ch. XXV.

**Johnson,* chs. XI, XII, XVII.

Kinley, David, Objections to a monetary standard based on index numbers. A. E. Rev., 3: 1-19. 1913.

**Materials,* 787, 788 (extract from *Brown, H. G.,*), 788, 789 (extract from *Clark, W. E.,* in "How to invest when prices are rising." 1912).

Noyes, A. D., Forty years of American finance. 1909. Chs. I-III.

Patterson, E. M., Objections to a compensated dollar. A. E. Rev., 3: 863-874. 1913.

*Phillips, chs. VI, VII, XIII.

Taussig, F. W., The plan for a compensated dollar. Q. J. E., 27: 401-416. 1912-1913.

United States Bureau of Labor Statistics, Bul. 173. 1915.

Walker, chs. III, VI, VII.

QUESTIONS.

1. In which year between 1890 and the present year would a fixed salary of $1,000 have gone farthest? In which year would its purchasing power have been least? If a sum of $1,000 loaned in 1897 was returned in 1902, what was the difference in its purchasing power on its return and when it was loaned?

2. Will a day's work of a common laborer buy more to-day than it would a half century ago? Why?

3. The Bureau of Labor's index number for 1912 was 133. What was the percentage change in the value of money from the base period to 1912? Give your reasons and your work.

4.

	Average prices for years 1860-65.	*Prices for 1900.*
Coffee, lb.	$ .12	$ .18
Coal, ton	3.00	3.60
Sugar, lb.	.08	.06
Wool lb.	.30	.20
Wheat, bu.	.80	.90

Upon the basis of the prices of the above commodities estimate the general price level for 1900, showing the percentage of its decline or advance from the basal price level. Indicate some of the causes which may have brought about this decline or advance.

5. At a given time the following commodity prices prevailed: cotton (raw), $.10 per lb.; wheat, $1.00 per bu.; sugar, $.07 per lb.; potatoes, $1.00 per bu.; beef (for roasting), $.25 per lb.; shoes, $5.00 per pair; cotton cloth of a standard grade, $.12 per yd.; woolen cloth of a standard grade, $1.25 per yd.; men's hats, $4.00, and coal, $7.00 per ton.

At a later date the prices of the same commodities were respectively as follows: $.13, $1.05, $.06, $1.10, $.30, $5.75, $.15, $1.20, $4.50 and $6.50.

Tabulate these facts and compute index numbers, which will show:

(1) changes in the price level of all ten commodities.

(2) changes in the price level of the articles of food.

(3) changes in the price level of the articles of clothing.

6. In the preceding exercise, do the data afford sufficient grounds for saying that the cost of living has moved either upward or downward?

If an affirmative answer be assumed, what has been the change in the value of money?

7. Assign to each of the commodities listed above a "weight" which represents, in your opinion, its importance as an article of popular consumption. Using this system of weights compute index numbers to show changes in the price levels of the same groups of commodities. How does the weighting affect your first conclusions regarding the changes in the cost of living. What is the importance of a system of weighting?

8. If the world's annual production of gold should suddenly increase five-fold, what would be the probable effect: upon the welfare of a stock exchange speculator as compared with the welfare of a teacher; upon the welfare of the creditor class as compared with that of the debtor class; upon prices?

9. What is the function of the standard of deferred payments?

What is that standard now in America? What change in it has lately been going on? How is this affecting the incomes of various classes?

10. What ought to be the characteristics of a standard unit of value?

11. Can you get a kind of money that will make the things that are sold, dearer, and the things that are bought, cheaper?

12. Is the fact of one man's gain and another man's loss by chance of any economic or political importance?

13. If every piece of money should miraculously be doubled in a night, whose interests would be affected?

14. Compare the effect of an increasing gold output upon the price of outstanding bonds with its effect upon the price of common stock already issued.

15. X is an isolated industrial country with a certain volume of money. Its government on a given day doubles the amount of currency. What will be the effect upon the rate of interest.

(a) of long-time loans,
(b) of short-time loans, and
(c) of demand loans?

16. The rate of interest on long-time investments in a certain isolated community has been six per cent. The amount of money in this community is increased so as to raise the general level of prices by 100 per cent. Assuming that the increase in money has come wholly from the more copious output of money-metal from the mines, to what extent will this rise in the general level of prices affect the rate of interest when thereafter capital is loaned for long-time periods?

17. Could a railway in the United States advantageously float a large issue of 20-year bonds in the year 1916? Give reasons for your answer. Show clearly what you mean by "advantageously." Would a railroad wish to float such an issue if it could? Why?

18. Is there anything in the nature of mining that keeps the ratio of the supply of gold and silver nearly uniform?

19. Some say Providence has indicated gold and silver as the materials for money. How has this been done?

20. What are the main reasons given for the ratio of 16 to 1?

21. Does the principle of the substitution of goods have any bearing on the value of metals under bimetallism?

22. What is the theory of money held by bimetallists?

23. "Inasmuch as gold (before 1848) was more valuable on the world's market than at the French mint, relatively to silver, it was impossible that gold should circulate in France." Is this a necessary conclusion?

24. What arguments advanced in favor of bimetallism in 1896 are inapplicable to-day?

25. What is the extent of the influence one nation can have on the ratio of the two precious metals?

26. How would the adoption of international bimetallism to-day at the ratio of 32 to 1 affect (a) the circulating medium, (b) the standard of value in different countries? Consider both the immediate and the eventual results.

27. What would have happened if a free silver law had been enacted in the United States in 1900?

28. Would an ideal monetary standard always measure the same quantity of goods?

29. A owes B a long term debt, which falls due just before the commencement of a commercial crisis; would it be to the advantage or disadvantage of A if the contract called for payment in terms of a tabular standard?

30. Why has not the tabular standard of deferred payments come into common use? Is the tabular standard sound or unsound in principle? Would your answer apply to the labor standard?

CHAPTER 7

THE FUNCTIONS OF BANKS

REFERENCES.

Cleveland, F. A., Funds and their uses. 1902.

Conant, C. A., History of modern banks of issue. 5th ed., 1915.

Dunbar, C. F., Theory and history of banking. 2d ed., 1901.

Fisk, A. K., The modern bank. 1903.

Holdsworth, J. T., Money and banking. 1914.

Kinley, David, The specie reserve in a banking system. J. P. E., 20: 12-24. 1912.

**Phillips*, chs. IX, X.

Scott, W. A., Money and banking. 1903.

Veblen, T., Theory of business enterprise. 1904.

**White*, bk. III, chs. I-III.

QUESTIONS.

1. What does a bank do for a community?
2. What are the functions performed by a bank?
3. What are the sources of income to a bank?
4. Explain the most important ways in which the deposits of com-

mercial banks originate; and state which of these ways creates the greatest amount of demand liabilities of the banks.

5. Do all banks issue notes? Why?

6. What is the advantage to a bank of the right to issue bank notes?

7. How does the issue of bank notes differ from the lending of funds to depositors?

8. Can a bank that issues its own notes afford to lend cheaper than the ordinary capitalist?

9. Two men A and B have notes each for $1000 discounted at the same bank. A is credited on the bank's books with the right to draw $950. B receives $950 in the circulating notes issued by this bank. Are the bank's liabilities increased to precisely the same extent by the two transactons? Does either transaction immediately lessen the bank's cash reserve?

10. The following are the items of a report of a National Bank: Capital stock, $50,000; Cash on hand and in banks, $77,066.21; Circulation, $49,400; Bills payable, $10,000; United States and other bonds, $239,050; Deposits, $465,417.41; Surplus and net undivided profits, $30,952.58; Loans and investments, $289,653.78.

(a) Separate and arrange these items in accordance with a regular bank statement and prove your answer.

(b) Show how these items illustrate the essential functions of a bank, explaining in detail the nature of these functions.

11. Sort out from the following items the resources and liabilities and show the equality of total resources and total liabilities:

Unpaid dividends	$ 782.00
Reserved for payment of taxes due	10,000.00
Undivided profits	85,228.57
Capital stock	500,000.00
Surplus fund	250,000.00
Cash items (checks to be presented for settlement in next day's exchanges)	280,347.43
Loans and discounts	2,782,713.15
U. S. legal tender notes and notes of national banks	435,296.00
Specie	278,304.48
Deposits	4,057,934.61
Overdrafts (checks paid in excess of deposits)	2,842.10
Due from banks and bankers	370,142.02
Real estate	43,900.00
Mortgage owned	1,000.00
Bonds	709,400.00

12. Classify the following items as resources or liabilities of a national bank and give reasons for your classification of the 1st, 4th, 6th, and 7th: (1) Capital stock, $50,000; (2) Real estate, furniture, fixtures, etc., $15,046.14; (3) Cash, $69,343.34; (4) Surplus and net undivided profits, $19,257.43; (5) United States bonds, $108,951.50; (6) Loans and discounts, $242,546.36; (7) Deposits, $301,679.91; (8) Circulation (i.e., notes outstanding), $64,950.

Prove that your classification is correct by balancing the account. Then show the changes made in the account by the following transaction: The bank loans $25,000.00 for 90 days at 6 per cent. interest, and the borrower draws out one-half the amount, with which he is credited after the bank has made the proper deduction for interest.

13. The week's averages of the New York banks for the third week in May compare as follows in 1905 and 1904:

	1905.	1904.
Loans	$1,120,426,800	$1,056,553,500
Deposits	1,165,151,700	1,100,586,100
Circulation	45,308,300	36,480,400
Specie	215,174,200	210,002,800
Legal tenders	84,333,700	78,143,000

Explain why loans and deposits in the above table show practically the same increase from 1904 to 1905.

14. How would the balance sheet of a commercial bank issuing an ordinary asset bank-note currency stand after the following operations?

The bank opens business with a paid-up capital of $2,000,000 and a surplus of $400,000. It spends $50,000 in its own bank notes for furniture and fixtures. It discounts at six per cent. for various customers $4,000,000 of 60-day notes and bills receivable, the borrowers taking one-fourth of the proceeds in cash, one-fourth in the bank's own bank notes, and leaving the balance on deposit. Customers cash checks on their accounts for $600,000 receiving two-thirds of the amount in the bank's own bank notes and the other third in coin and other kinds of "lawful money." Other customers make deposits of $900,000, of which one-third is in "lawful money," one-third in the bank's own bank notes, and one-third in the checks of other depositors in the same bank. The bank buys at par $1,200,000 of railroad bonds, paying for them in its own bank notes. It pays with its own bank notes expenses for wages, stationery and taxes to the amount of $10,000. (b) What percentage of reserve is it carrying at the end of these operations?

15. Statement of a national bank.

LIABILITIES	$ Thousand	RESOURCES	$ Thousand
Capital,	464.	Loans and discounts,	708.
Surplus,	203.	Over-drafts,	.1
Undivided profits,	53.	Bonds to secure circulation (par value)	450.
Circulation,	404.	Other stocks and bonds,	163.
Deposits,	419.	Due from reserve agents,	105.
Due banks,	29.	Due from banks,	21.
		Banking house,	32.
		Current expenses and taxes,	3.
		Checks and cash items,	4.
		Exchange for Clear. House,	11.
		Notes of other banks,	15.
		Gold,	30.
		Silver,	.9
		Legal tenders,	9.
		Redemption fund in U. S. T.	20.
	1,572.		1,572.

What can you learn from this statement about the kind of business which the bank is carrying on, and its power to withstand a financial storm?

16. How would the balance sheet of a commercial bank stand after the following operations? The bank begins business with a paid-up capital of $300,000 and a surplus of $60,000. It discounts for customers $600,000 of four-months notes and bills receivable, at 6 per cent., the borrowers taking one-third of the proceeds in cash (i.e., lawful money), and leaving two-thirds on deposit. Customers deposit $200,000, of which one-half is in cash, one-quarter is in checks drawn on this bank, and one-quarter is in checks drawn on other banks.

17. Suppose that this bank now reorganizes as a national bank and, to secure the privilege of note issue, buys United States 2 per cent. bonds of a par value of $90,000 at $102.. These bonds it deposits with the Treasurer of the United States and receives the full amount of national bank notes to which it is entitled. Depositors withdraw by check $180,000, the bank giving them $45,000 in its notes and the balance in lawful money. A dividend of 2 per cent. is declared, and is paid, one-half in lawful money and one-half in the form of deposits. Present the balance sheet.

CHAPTER 8

BANKING IN THE UNITED STATES BEFORE 1914

REFERENCES.

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Sprague, O. M. W., Proposals for strengthening the national banking system. Q. J. E., 24: 201-242, 634-659; 25: 67-95. 1909-1911.

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**White*, bk. III, chs. IV, XV, XVII, XX, XXI, and appendices A and B.

Willis, H. P., The banking question in Congress. J. P. E., 20: 869-885. 1912.

QUESTIONS.

1. Explain the method followed by national banks in issuing bank notes. Why did the banks often find it more profitable to use their money in other ways than by issuing bank notes? Ref.: Discussion in various reports of Comptroller of the Currency.

2. Section 28 of the National Bank Act of June 3, 1864, after providing that a national banking association may hold real estate "necessary for its immediate accommodation in the transaction of its business" and such other real estate and mortgages thereupon as it may have taken to secure debts previously contracted, provides that "Such associations (national banks) shall not purchase or hold real estate in any other case or for any other purpose. . . ."

(a) What is the reason for the above provision?

(b) Would it be wise to make a similar prohibition on savings banks?

3. Describe the clearing house and define its economic advantages.

4. If there are twenty banks in a town and no clearing house, how many collections would have to be made by all the banks daily assuming that each day depositors of each bank receive checks on the other nineteen banks?

5. Does a clearing house enable the banks that belong to it to get along with a smaller cash reserve?

CHAPTER 9

THE FEDERAL RESERVE ACT

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**Phillips*, ch. XXXI.

Scott, W. A., Banking reserves under the Federal Reserve Act. J. P. E., 22: 332-344. 1914.

White, bk. III, ch. XXII and appendices D and E.

Willis, H. P., The Federal Reserve Act. A. E. Rev., 4: 1-24. 1914.

QUESTIONS.

1. Name and contrast the different kinds of banks in the United States.

2. How are notes issued under the Federal Reserve Act?

3. If on a given date the surplus reserve (i.e., the reserve in excess of the legal minimum reserve required by law to be held against deposits) of the New York Associated Banks amounts to $11,000,000, and the deposits on the same date amount to $1,164,000,000, what is the total cash reserve held by the banks on said date? What would it have been in 1912?

4. The "New York Times" of December 8, 1916, said:

"The rediscounting of commercial paper at the Federal Reserve Bank of New York by some of the city's largest banks on Wednesday had the effect yesterday of improving general money market conditions. Call loans which were made at 15 per cent. on Monday, and as high as 10 per cent. on Tuesday, and touched seven per cent. Wednesday, were placed yesterday at from three to five per cent. Most of the loans were made at four and one-half per cent., the renewal rate, and the closing quotation was three per cent. Time money rates were easier."

Explain the process of rediscounting here referred to. In just what way did the rediscounting operations relieve the call money market?

Do you consider that this use of the rediscounting facilities provided by the Federal Reserve System was in accord with sound banking principles? Was it the best possible use of the rediscounting mechanism? For suggestions see the "New York Times" of December 5, 1916, under the heading "Financial Markets."

CHAPTER 10

CRISES AND INDUSTRIAL DEPRESSIONS

REFERENCES.

Dewey, D. R., Financial history of the United States, 4th ed., 1912. Ch. X.

England, Minnie T., Promotion as the cause of crises. Q. J. E., 29: 748-767. 1914-1915.

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Hobson, J. A., Evolution of modern capitalism. Ed., 1912. Ch. 7.

Jones, E. D., Economic crises. 1900.

Juglar, C., and *Thom, C. W.*, A brief history of panics and their periodical recurrence in the United States. Ed., 1916.

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Mitchell, W. C., Business cycles. 1913.

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Patterson, E. M., The theories advanced in explanation of economic crises. A. A. A., 59: 133-147. 1915.

**Phillips*, chs. XXVIII, XXIX.

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Sprague, O. M. W., The crisis of 1914 in the United States. A. E. Rev., 5: 499-533. 1915.

United States Bureau of Labor, Annual report for 1886.

QUESTIONS.

1. What is a financial crisis? An industrial depression?

2. Describe the trade, banking and price conditions which obtain just preceding, during and immediately following a crisis.

3. State clearly and explain the movement of prices of stocks, bonds, mortgages, land, commodities generally, wages and interest rates on long time and short time loans, before, during, and after a crisis.

4. Tabulate for a series of years covering periods of prosperity and depression, the prices of stocks, bonds, real estate, and of some commodities.

5. What economic changes occurred in your own community in the panic of 1893-94, or in the years 1903-04, or in 1907-08?

6. Is it possible that the amount of all goods produced shall be in excess of the community's power of consumption?

7. "As the average American can produce far more than he can consume, it has been proved repeatedly that as long as the sale of his products is confined to the home markets, over-production is certain to be a natural consequence of every prolonged period of activity. For half a century, therefore, with regularly recurring seasons of surplus production, there came those inevitable commercial crises which emphasized with increasing force the necessity for foreign markets." (This passage is taken from a reprint of a speech of a congressman.)

Criticize the view as to the cause of commercial crises expressed in the above statement.

8. Is a crisis caused by too much or too little money, or by some other influence?

9. If there were twice as much money in the world, would panics take place?

10. In a period of depression is there less money than usual in the country? In the banks?

11. In what ways and to what extent are trade conditions apt to be affected by:

The increasing gold supply?
The trust movement?
Increasing armies and navies?
The agricultural situation?

12. Explain the difference in the motive of the borrower at ordinary times and in times of panic.

13. How are loans affected when the reserve limit as established either by law or custom is reached in England, Germany and the United States?

14. What in your opinion is the correct explanation of crises?

15. In what ways is business affected by the condition of the crops? Within what limitations? In the case of which crops is the connection closest?

16. What element of security is furnished by clearing houses during panics?

17. Describe the method used by the banks in meeting demands of depositors during the panics of 1893 and of 1907. (Dunbar is especially valuable. Also O. M. W. Sprague, History of crises under the National Banking System, pub. by Nat. Monetary Com.)

CHAPTER 11

INSTITUTIONS FOR SAVING AND INVESTMENT

REFERENCES.

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Devine, H. C., People's coöperative banks for workers in towns, and small holders, allotment cultivators, and others in country districts. 1908.

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Hamilton, J. H., Savings and savings institutions. 1902.

Johnson, A. S., Influences affecting the development of thrift. P. S. Q., 22: 224-244. 1907.

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Kniffin, W. H., The savings bank and its practical work. 1912.

**Phillips,* ch. XVI.

Wolff, H. W., A coöperative bank handbook. 1909.

Coöperative banking. 1907.

People's banks. 3d ed., 1910.

QUESTIONS.

1. What are the nature and purpose of legislation restricting the investments of savings banks?

2. What are these restrictions in this state? In your own state? In those states which are regarded as having the most highly developed laws in this field?

3. Is legislation in this field to be considered as subsidizing certain types of private enterprise? If so, is it socially justifiable?

CHAPTER 12

PRINCIPLES OF INSURANCE

REFERENCES.

Gephart, W. F., Principles of insurance. 1913.

Gephart, W. F., Insurance and the state. 1913.

Huebner, S. S., Life insurance. 1915.

Huebner, S. S., Property insurance. 1913.

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Valgren, V. N., Farmers' mutual fire insurance in Minnesota. Q. J. E., 25: 387-396. 1910-1911.
Willet, A. H., Economic theory of risk and insurance. 1901.
Zartman, L. W. (Ed.), Fire insurance. Ed., 1915.
Zartman, L. W. (Ed.), Life insurance. Ed., 1915.

QUESTIONS.

1. What are the conditions of economically sound insurance? Give at least two examples.

2. What is the essential economic difference between gambling and insurance?

3. Give examples showing the difference between a gambling house and an insurance company?

4. Investors in Russian bonds are said to take out policies of insurance payable to themselves in the event of the Czar's death, their object being to guard themselves against loss by the depreciation of their Russian securities in case of political disturbances that might emerge upon a change of rulers.

(a) Do you regard such insurance as gambling or legitimate speculation from the standpoint of either insurer or insured?

(b) Do you regard the issue of such policies on the part of the insurance companies as "sound"?

5. Ought lotteries to be permitted by law?

6. Suppose 1,000 owners of 1,000 buildings worth $7,000 each wish to insure themselves against fire. If the risk for the class of buildings involved in such that seven out of 1,000 burn each year, what annual payment from each owner would be necessary to insure all against total loss—expenses of management, interest, etc., being ignored? (F. M. Taylor.)

7. Suppose that a corporation owns 500 buildings worth $100,000 each; that to insure against fire in an ordinary company would cost $250 for each building; and that the corporation is convinced that by the expenditure of $10,000 the fire loss can be reduced to an average of one building every three years. Would it pay the corporation to insure with some company? (F. M. Taylor.)

CHAPTER 13

INTERNATIONAL TRADE

REFERENCES.

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Brown, H. G., International trade and exchange. 1914.

Clare, G., The A B C of the foreign exchanges. 1895.
Escher, Franklin, The elements of foreign exchange. 2d ed., 1911.
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Johnson, E. R., Probable changes in the foreign trade of the United States resulting from the European war. A. E. Rev., 6 (no. 1, supp.): 17-25. 1916. Round table discussion of above, 26-49.
Johnson, E. R., Van Metre, T. W., Huebner, G. G., and *Hanchett, D. S.*, History of domestic and foreign commerce of the United States. 1915.
**Source Book*, 337-346.
Willis, H. P., Transportation and competition in South American markets. A. E. Rev., 2: 814-833. 1912.

QUESTIONS.

1. Is it bad policy to let the people of a suburban village spend money in the city for things that could be produced at home?

2. Is it bad policy for California to buy New England manufactures?

3. Give examples of the industrial advantages of America as compared with Europe.

4. Is the alleged superior efficiency of the American workman over the competing workman of Europe connected in any way with the principle of proportionality?

5. Community A has lands that can produce wheat at a cost of 60 cents per bushel, corn at 40 cents per bushel and potatoes at 40 cents per bushel. Community B can produce wheat at 70 cents per bushel, corn at 45 cents per bushel and potatoes at 42 cents per bushel. Supposing that each community can raise just enough of these foodstuffs for its own use, will there be any incentive for them to exchange these products?

6. "A man is of all sorts of luggage the most difficult to be transported." What is the bearing of this fact upon the theory of international trade?

7. Can a country have a persisting excess of merchandise exports over merchandise imports? If so, under what conditions?

8. If foreign exchange suddenly rose several cents, while imports and exports remained the same, to what causes might it be due?

9. If as the result of a year's foreign trade nation A obtains from other nations $10,000,000 in gold coin in settlement of the balance of international indebtedness, to what extent does that sum measure the gain of nation A from international trade? Reasons.

10. The statistics of exports and imports of the United States for the year 1908-1909 show an excess of exports over imports of $351,000,-

000 in merchandise; $12,000,000 in silver and $48,000,000 in gold. Explain clearly how the United States could have had an excess of exports of merchandise, silver and gold in the same year.

11. If demand exchange on London were selling at $4.835 in New York, would that indicate anything as to the relative values of our imports and exports? Would gold be shipped under these conditions and if so in which direction? Explain.

12. Explain clearly the condition of commerce under which demand sterling bills of exchange will sell at $4.875 in the New York exchange market.

13. If the merchandise imports from England to the United States equalled the exports from the United States to England, what would be the state of exchange on London? Would there be any greater advantage to either of the countries engaged in trade?

14. What effect on exchange has the holding of American bonds abroad?

15. If large shipments of wheat are made to England, will bills of exchange on London be higher or lower in New York?

16. When in New York a sight draft on London for £5000 sells for $24,150, in which direction are gold remittances likely to be moving? Give reasons.

17. If England sells $10,000,000 worth of our securities to Americans, what is the effect on exchange rates?

18. Show what, in a gold-producing country, would be the relations and interaction of new gold supply, prices, relative amounts of imports and exports, and rate of exchange. (Sumner.)

19. A nation with n dollars in circulation has to pay a war indemnity of n dollars to another country having the same circulation. How much money will each then have, and what will be the effect on prices, foreign trade, rate of exchange? (Davenport.)

20. Suppose an increase in the volume of our currency, due to a new issue of silver, what would be the effect upon international trade? Would this effect be lasting? Would your answer depend at all upon the condition of our currency at the time the increase occurred?

21. If through the improvement of our banking and currency system a much larger percentage of the business of the country comes to be done through the use of credits (rather than money) as the medium of exchange, what will be the effect on (a) the quantity of money in circulation, (b) the general level of prices, (c) the composition of the country's media of exchange, (d) the international movement of gold, (e) the interests of debtors and creditors, respectively?

22. Each one of two countries, A and B, can, by the application of a given amount of labor to its material resources, produce any one or all of the commodities M, N, O, P, Q, R and S, as exhibited in the following table:

Commodity.	*Country A.*	*Country B.*
M	50 tons	60 tons
N	1000 yards	1100 yards
O	25 bales	20 bales
P	900 bushels	800 bushels
Q	600 ounces	650 ounces
R	5000 gallons	5000 gallons
S	2500 pounds	2000 pounds

(a) In the absence of restrictive legislation is each country likely to produce all of these commodities for itself? Why or why not?

(b) If conditions are such as to lead to the territorial division of labor, which commodities are most likely to be produced in each country?

(c) About which of these commodities is there the least certainty on this point? Why?

CHAPTER 14

THE POLICY OF A PROTECTIVE TARIFF

REFERENCES.

Bolen, G. L., Plain facts as to the trusts and the tariff. 1902. Pt. II.

Daniels, W. M., The elements of public finance. Ed., 1911. Pt. II, ch. VII.

Johnson, E. H., The effect of a tariff on production. Q. J. E., 18: 135-137. 1903-1904.

Patten, S. N., The economic basis of protection. 1890.

**Source Book*, 347-357, 358-360.

Wallace, H. B., A balanced tariff. A. E. Rev., 2: 568-575. 1912.

QUESTIONS.

1. Can it be of advantage to trade freely with one nation if general free trade is bad?

2. If there were no legal bar to a tariff between the states, would a tariff probably be imposed? If so, would it be a wise measure?

3. Discuss the contention that a protective tariff by helping to keep out imports of foreign goods tends to maintain a favorable balance of trade.

4. "The territorial distribution of money is both a determined and a determining factor in international trade."

Explain the meaning of this statement and show its relation to the "favorable balance of trade" argument for protection.

5. An Englishman gave this argument for protection: "If an Englishman buys a frying pan from a German for a shilling (24 cents), then England gets the frying pan and Germany gets the shilling, whereas if an Englishman buys the frying pan from an English manufacturer for 13 pence (26 cents), England gets both the frying pan and the 13 pence. The increase in price benefits England because the money remains within the country, instead of going abroad to increase the wealth of foreign nations." Give your opinion of this argument.

6. Discuss this statement: "The American people send abroad over $100,000,000 a year to pay for imported sugar. To meet this bill requires the wheat crop of over 7,100,000 acres. But all the sugar now imported could be grown on 1,700,000 acres in beets or cane. In other words we are throwing away the product of approximately 5,400,000 acres of land by not growing our own sugar."

7. A New York daily has contended that "Of course, we should be the gainers if every pound of it (raw cotton) were exported in manufactured form. Every process through which the raw material passes in its conversion into fabrics would mean employment for American wage-earners."

Discuss the proposition that the aggregate for the labor of American wage-earners is less if we export raw cotton than if we should manufacture the raw cotton in this country for export.

8. Assuming that an import duty on tea, if sufficiently high, would create a tea growing industry in the United States capable of supplying the whole domestic demand, trace the various economic effects of such a duty.

9. Who gained when Hawaiian sugar (before annexation) was admitted free of duty, while other sugar was taxed?

10. If the owners of marble quarries can show that their net income is 30 per cent. greater by reason of the protective tariff upon foreign marbles, does this show that the tariff increases the wealth of the protecting country?

11. State any proposition which you think that you can maintain about the relation between high or low wages and international competition. Maintain your proposition.

12. What do you say to the plan of so adjusting duties on imports as to equalize the "labor cost" of imported and domestic commodities,

through the levy of duties which will just offset the higher wages paid by the American employer?

13. Is a high rate of money wages an obstacle to the successful conduct of industry in competition with countries where money wages are low?

14. What was the argument originally used as to the comparative wage levels here and abroad so far as the starting of certain industries in this country was concerned? Compare this argument with the current protectionist argument as to the relation between the tariff and the present general wage level in the United States.

15. What help should the law of wages give in explaining the present inequality as among the wage scales in Germany, France, England and the U. S.?

16. If it would pay us to admit goods free, may we be justified in taxing them to force concessions from the other country?

17. What conditions as to consumption and production at home and abroad would be most favorable to the shifting of an import duty on a manufactured article entirely to the consumer?

18. (a) A and B are two tropical islands inhabited by friendly peoples and producing the same commodities. The climate, soil and topography of A are such that all kinds of products can be produced there with less effort than they can be produced in B. Could there be any incentive for the people of A to trade with the people of B?

(b) Debarring all feelings of hostility and of sentimental attachment to home, is there any reason why the people of B should not all emigrate to A?

(c) Could B equalize conditions of production by enacting a protective tariff on the products of the two islands?

(d) Suppose A were discovered after a strong civilization had grown up on B. Might conditions be such that A could with advantage to itself exact a protective tariff?

CHAPTER 15

AMERICAN TARIFF HISTORY

REFERENCES.

**Blakey, R. G.*, The new revenue act. A. E. Rev., 6: 837-850. 1916.

Curtis, J. F., The administrative provisions of the revenue act of 1913. Q. J. E., 28: 31-45. 1913-1914.

Hoffmann, I. N., Customs administration under the 1913 tariff act. J. P. E., 22: 845-871. 1914.

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Taussig, F. W., How tariffs should not be made. A. E. Rev., 1: 20-32. 1911.

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**Willis, H. P.*, The tariff of 1913. J. P. E., 22: 1-42, 105-131, 218-238. 1914.

QUESTIONS.

1. In the light of American tariff history what would you say were (1) the principal advantages and (2) the principal disadvantages of a highly protective tariff as a primary source of public revenue? Illustrate your points by historical references.

2. If other countries can carry our commerce cheaper than we can do it ourselves and if the citizens of this country can invest their money with greater profit in other industries, what are the advantages and disadvantages of allowing those countries to carry our commerce?

3. Tabulate and diagram the values of the imports and of the exports of the U. S. to and from Europe, N. A., S. A., Asia, Oceanica and Africa for the latest five years reported. Discuss the question of American exports and imports in a paragraph not exceeding 200 words in length. Stat. Abst. (under Progress of U. S.).

4. Make a list of the ten leading articles exported from and the ten leading articles imported into, the U. S. for the latest year available. What do these show as to the position of the U. S. in international commerce? Stat. Abst.

CHAPTER 16

OBJECTS AND PRINCIPLES OF TAXATION

REFERENCES.

**Bullock, C. J.*, Selected readings in public finance. 1906. Chs. VIII, IX.

The growth of federal expenditures. P. S. Q., 18: 97-111. 1903.

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**Plehn, C. C.*, Public finance. 3d ed., rev and enl. 1913. Pts. I, II.

Round table discussion of taxation. A. E. Assn. Bul., 4th ser., 1 (no. 2): 333-346. 1911.

Seligman, E. R. A., Essays in taxation. 8th ed., 1913.

QUESTIONS.

1. Does taxation ever infringe on the right of private property?

2. What is it a citizen gets in return for his taxes?

3. Is there any relation between the taxes paid and the benefits secured from government?

4. In what ways may we understand the proposition that taxation should be proportioned to ability?

5. It is claimed by some that the use by the government of indirect taxes increases existing inequalities in the personal distribution of wealth. What reasons may be given for or against this opinion?

CHAPTER 17

PROPERTY AND CORPORATION TAXES

REFERENCES.

Brooks, R. C., The German imperial tax on the unearned increment. Q. J. E., 25: 682-709. 1910-1911.

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Compton, W. M., Recent tendencies in the reform of forest taxation. J. P. E., 23: 971-979. 1915.

**Hamilton,* Readings, 560, 561.

Robinson, M. H., The Federal corporation tax. A. E. Rev., 1: 691-723. 1911.

**Source Book,* 130-137.

Tucker, R. S., The British taxes on land values in practice. Q. J. E., 29: 794-819. 1914-1915.

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Special report on taxation. 1913.

Young, A. N., The single tax movement in the United States. 1916.

QUESTIONS.

1. A recent newspaper item says: "This is the year real estate is assessed. Turn the cow loose in the front yard, tear down the fence, make things look generally dilapidated, for it will be money in your pocket." What does this indicate regarding taxation?

2. The parts of an estate divided into fifteen equal shares by ex-

pert real estate agents were soon after assessed variously from $900 to $2850 for purposes of taxation. What does this indicate? (From Sumner's Problems.)

3. Explain how and why the general property tax has been breaking down in the United States with reference to the taxation of public service corporations.

4. What is meant by the separation of state and local revenues? What advantages do the advocates of separation claim for their plan? What is your judgment with reference to its advisability?

5. What is meant by the proposition that a single tax on land values is paid for all time by the one who owns the land at the time the tax is first imposed?

6. How does Massachusetts tax interstate railroads running through the state? What defects, if any, do you see in the Massachusetts plan?

7. Can taxation be used to secure some of the profits of large corporations?

CHAPTER 18

PERSONAL TAXES

REFERENCES.

Adams, T. S., The effect of income and inheritance taxes on the distribution of wealth. A. E. Rev., 5 (no. 1, supp.): 234-244. 1915.

The place of the income tax in the reform of state taxation. A. E. Assn. Bul., 4th ser., 1 (no. 2): 302-321. 1911.

**Blakey, R. G.*, The new income tax. A. E. Rev., 4: 25-46. 1914.

Bowley, A. L., The British super-tax and the distribution of income. Q. J. E., 28: 255-268. 1913-1914.

**Bullock*, chs. XII, XVI.

The taxation of property and income in Massachusetts. Q. J. E., 31: 1-61. 1916-1917.

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Seligman, E. R. A., The income tax. Ed., 1914.

Smith, R. H., Distribution of income in Great Britain and incidence of the income tax. Q. J. E., 25: 216-238. 1910-1911.

West, Max, The inheritance tax. 2d ed., 1908.

QUESTIONS.

1. What is the present status of the inheritance tax in the American commonwealths?

2. Discuss the proposition that income is the normal source of taxation.

3. Outline the history of income tax legislation by the federal government. What were the conditions which led to the income tax legislation of 1913?

4. What conception of income does the recent income tax embody? Illustrate some peculiar distinctions resulting from this use of "income."

5. What is your opinion concerning the justice of progressive taxation?

6. Name the two principal arguments in favor of progressive taxation. Which two arguments in favor of progressive taxation do you consider the strongest and why? Which two arguments against progressive taxation do you consider the weakest and why? To what kinds of taxes, if to any, is the principle of progression inapplicable and why?

CHAPTER 19

METHODS OF INDUSTRIAL REMUNERATION

REFERENCES.

**Adams, T. S.*, and *Sumner, H. L.*, Labor problems. 8th ed., 1914. Chs. IV, IX, X.

Commons, J. R. (Ed.), Trade unionism and labor problems. 1905. Ch. XI.

**Commons, J. R.*, and *Andrews, J. B.*, Principles of labor legislation. 1916. Ch. II, secs. 1-3.

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QUESTIONS.

1. With increasing division of labor is there greater or less opportunity for the payment of laborers according to the piece-wage plan?

2. Discuss the following statement: Under the piece-work system the foreman looks out for the quality and the operative for the quantity of the work; under the time-wage system the foreman looks out for the quantity and the laborer for the quality of the work.

3. What remedy has the foreman for an inefficient laborer working under the time-wage system?

4. Is time- or piece-work best adapted to the following kinds of laborers: coal-miners, coopers, farm-hands, printers, engravers, shoe-factory hands, railroad brakemen, telegraph operators?

5. Since under the piece-work system a man is paid only for what he does is there any reason for discharging a workman employed under this plan whose efficiency falls below the average?

6. Describe any case of profit-sharing you may have seen in operation.

7. In the case of a coöperative general store do economic profits emerge? If so, where do they go?

8. If you have seen a coöperative store in operation tell what was its success.

9. Compare and explain producers' and consumers' coöperation, showing the difficulties and advantages.

CHAPTER 20

ORGANIZED LABOR

REFERENCES.

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QUESTIONS.

1. Are the opportunities for workmen to rise to the rank of masters as great as formerly?

2. What are the chief causes of the origin and rise of trade unions? Distinguish between a trade union and a labor union.

3. What are the conditions favorable to national agreements between trade unions and employers' associations? Explain clearly the bearing of each of these conditions.

4. Describe the practices included under the term "direct action," and contrast with the methods of collective bargaining and legislation.

5. Are strikes becoming more or less frequent and important in your state? In answer to this question give figures from 1881 on if obtainable, showing number of strikes; establishments affected and to what extent; loss in wages and to employers. Diagram the figures. Ref., U. S. Bu. of Labor, Annual report, 1906.

6. Do trade unions increase or decrease the number of strikes?

7. If you were an officer of a trade-union, would you begin a strike when trade was good or when it was poor?

8. Does it make any difference in the permanence of an increase of wages brought about by a strike, whether the employer is one of the more successful or one of the less successful in that business?

9. Give examples of the different kinds of boycott. What seems to be the attitude of the federal courts as to the lawfulness of boycotts?

10. Is there any similarity between the methods of trade unions and the etiquette of the medical and the legal professions?

11. Some trade unions limit the number of apprentices in their trades. Is this a justifiable policy on their part?

12. Of the methods employed by trade unions to raise the wages of their members, which are prejudicial and which are not prejudicial to the interests of the rest of the community, including non-union labor? Give reasons.

13. Can wages be affected by the "collective bargaining" of trade unions and if so indicate in that connection a justification (if one exists) for trade union organization.

14. If a trade union sets a minimum rate of wages lower than the competitive market rate would be in the absence of organization, which rate would the members receive? State the facts from the Source Book which lead you to your answer.

15. Have trade unions raised or lowered the wages of non-union labor?

16. What is the attitude of American trade unions toward efficiency systems as attempts to introduce improved methods of production (not systems of payment)?

CHAPTER 21

PUBLIC REGULATION OF HOURS AND WAGES

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QUESTIONS.

1. If you can do more work in two hours than in one, can you do more continuously in sixteen consecutive hours than in eight?

2. What determines the maximum study time for the earnest student?

3. When does an industrious man stop working on his own farm, and why?

4. If production is reduced one-fourth by shorter hours, is "work made" to that degree for the unemployed?

5. Defend the minimum wage policy from the workman's point of view, and state the employers' objections thereto.

6. Suppose it were proposed to establish by law a universal nine-hour day for men.

(a) Under what conditions would you consider such a law socially beneficial?

(b) What other agencies might accomplish the ends which such a law is designed to effect?

(c) What are the chief social and economic effects which you would expect from such a law?

CHAPTER 22

OTHER PROTECTIVE LABOR AND SOCIAL LEGISLATION

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QUESTIONS.

1. What classes of economic goods or services are regulated by law and why?

2. Is there any likeness between trade-unions and tariffs? Between tariffs and factory legislation?

3. What reasons are given in justification of laws closing barber shops on Sundays?

4. May a person owning a lot on a residence street of a city erect a glue factory on it?

5. What have you noted as to the benefits or hardships of restricting child labor in factories?

6. In what kinds of social legislation is the federal character of our government a serious bar to experimentation? Show clearly the reasons why.

7. If population became stationary, neither increasing nor decreasing in numbers, and if methods were discovered which would render possible the production of the same amount of wealth per year as at present with only half the force of laborers employed, and if the average labor day were not shortened, would there not be a great and apparently permanent lack of employment? Discuss thoroughly and give reasons for your answer.

8. In what sense is the "unemployment," so manifest in a period of industrial depression, evidence that the number of workers is "in excess of the work to be done"?

CHAPTER 23

SOCIAL INSURANCE

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QUESTIONS.

1. Are industrial accidents more frequent in low paid or in high paid occupations?

2. Suggest advantages and disadvantages of a general system of compulsory industrial insurance for old age, sickness and accidents. What are the essential differences between these three forms of insurance?

3. Show to what extent a system of workingmen's insurance has been developed in one of the following countries: Germany, France, Italy, England. In the development of a general system of workingmen's insurance in the U. S., which one of the above forms will probably first come in? For what reasons has a system of this kind not been developed in the U. S.? Henderson, C. R., Industrial insurance.

CHAPTER 24

POPULATION AND IMMIGRATION

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QUESTIONS.

1. Tabulate and chart the changes that have taken place in our immigration in regard to (1) amount, (2) character. What problems are presented by these facts? Stat. Abst.

2. Explain the terms "the new immigration" and "the old immigration," and give the important statistical facts regarding them.

3. Show the application of the doctrine of population to the present problem of immigration and wages in America.

4. Do the figures on immigration show anything as to the need of legislation restricting immigration?

5. What has been the effect of the recent immigration into the United States upon the use of machinery?

6. Apply the theory of wages to explain the effect of present immigration on the wages of unskilled or slightly skilled workers.

7. If the supply of labor of any class were to be decreased ten per cent., would wages rise in like proportion?

8. Is immigration now adding to the general welfare in the United States? State the facts and general economic principles on which you base your answer.

9. If there is an immigration of half a million workers annually into a country for a period of ten years—during which no new natural resources are made available, would wages in that country be affected? If so, of what classes of workers? What would be the effect on the amount of income received by land owners?

10. Explain how the general principles of price-determination hold in the determination of wages. Show how these principles apply when there is extensive employment of southern and eastern Europeans. (See Source Book.)

11. If in a given labor market the number of laborers increases while the number and technical efficiency of indirect agents remains unchanged, what change, if any, will result in the average rate of wages? What change, if any, will there be in the return to the indirect agents?

12. Is common, unskilled labor "scarce" (in any reasonable sense of the word) in China? in the United States?

CHAPTER 25

AGRICULTURAL AND RURAL POPULATION

REFERENCES.

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QUESTIONS.

1. Cite any instances you have noted of local changes of population distribution as between country and city. What are the chief facts of interest in these cases? What forces can you assign as causes of the changes? Has agricultural activity been accelerated or retarded? Has it received a set-back?

2. A wealthy metropolitan banker purchases a large country estate in a section in which farming is practically on a subsistence basis and in which in recent years many farms have been abandoned. He applies labor and materials lavishly to the soil, sparing no expenditures for purposes which will assist in the production of crops of the best quality. Under what conditions can this be profitably done? What will be the probable effect on local agriculture, (a) if the entire product of the estate is consumed upon it? (b) if a substantial part of the product is marketed in competition with that of the local farmers? What changes are likely to occur with reference to the occupation of the local population? With reference to its migration?

3. Why is it that immigrants are now taking up the farms of New England which have, in some cases for years, been abandoned by native farmers? Is the fact that they are doing so an argument for or against the restriction of immigration?

4. What is the general tendency of immigrants in the matter of settlement in urban and rural communities?

5. If it is true that the relative decline of the agricultural population of the United States can be explained by the operation of purely economic forces, on what grounds is there justification for complaint as to the evils of concentration of population in cities?

CHAPTER 26

PROBLEMS OF AGRICULTURAL ECONOMICS

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QUESTIONS.

1. Why has the corporate form of business organizations not been as extensively introduced into the farming industry as into other industries?

2. Discuss the following statements quoted from an article on the

Federal Farm Loan Act of 1916. "There was no necessity for any kind of federal legislation affecting the land credit problem of landowners. . . . There is, however, the more pressing problem . . . of making the conditions of country life more attractive to the *younger* generation of farmers. In accomplishing this end some form of land purchase legislation is needed." Amer. Econ. Rev., 6: 789. 1916.

3. How do urban and rural districts differ in their preference for and use of different kinds of bank credit.

CHAPTER 27

THE RAILROAD PROBLEM

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**Source Book*, 361-367, 368-378, 379-382.

QUESTIONS.

1. Why is transportation a greater problem in the United States than in Europe?

2. Show in what way natural waterways have determined the location of leading cities in America.

3. Give examples of cities whose growth has been caused by railroads.

4. Upon what considerations are commodities classified for shipment by railroads? Is classification unfair discrimination? Illustrate by an example.

5. What classes of interests are affected by increasing the minimum weight for carloads? Explain in each case whether the effect is favorable or unfavorable and the reasons therefor.

6. Does cost of service have anything to do with the rates charged by railroads?

7. Give an example of a blanket rate territory and the reasons therefor.

8. What is the "long and short haul" clause of the Interstate Commerce Act? Explain why railroads make rates which contravene the terms of this clause, and why the government should forbid the railroads to make such rates.

9. A railroad connecting two competitive points charges one-fourth of a cent per ton mile on grain shipments from its inland terminus, while it charges one cent per ton mile on grain shipments from non-competitive territory. What considerations have probably led to the establishment of the above rates?

Might not the railroad increase its net revenue by raising the rate on through traffic to one-half cent per ton mile and lowering the local rate to three-fourths of a cent per ton mile?

10. The rate on corn in carload lots from Omaha, Neb. to Newport News, Va. is 10 cents per hundred pounds. From the Omaha region there are competing carriers to the Gulf and other Atlantic ports. The rate on corn in carload lots from points in Virginia to Newport News over the same route is 12 cents per hundred pounds. Could not the local rates be lowered if the carriers advanced the rates on the long-distance haul?

11. What cases have you seen where the railroads impose unjustly on the public?

12. Give instances you have seen or heard of where two shippers paid different rates for the same service.

13. Do you know any large cities that are more favorable shipping points than neighboring towns?

14. What legal rights do the builders of a railroad have that are not enjoyed by all citizens?

15. Can you see any clear distinction between the public nature of a railroad and that of a horse and carriage?

16. What harm can there be in the acceptance of passes by judges, legislators, and other public officials?

17. Ought the law prohibit the sale of tickets by "scalpers"?

18. If your neighbor rides on a pass and you pay your fare, are you helping to pay for his ride?

19. Why should preachers get half-fare rates?

20. What are the chief reasons for the governmental regulation of railways?

21. Why does the question of the control of the railways in the interest of the public present especial difficulties in America?

CHAPTER 28

THE PROBLEM OF INDUSTRIAL MONOPOLY

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QUESTIONS.

1. What large trusts have recently been formed?

2. State the motives for forming trusts, separating those which are socially beneficial and those which are anti-social.

3. Enumerate the advantages possessed by a "trust" over a small competitor, and indicate which of these are the results of large scale production and which are due to the possession of monopoly power.

4. Are there any conditions under which a combination would be a more economical unit of production and distribution than a single plant large enough to secure all advantages to be obtained from mere quantity of output? If so, state them clearly.

5. Explain carefully the causes and limits of the advantages of large production. Give three examples of industries in which the advantages are seen.

6. Have you observed the growth of any local industry from a small beginning to large proportions? If so, how do you account for it?

7. What is the largest manufacturing establishment in your home town? Would a number of smaller establishments of the same sort and with the same aggregate capacity succeed as well? Why?

8. What relation has improved transportation and other means of communication to trusts?

9. What are the chief methods by which trusts or combinations have sought to make economies in management?

10. Describe the characteristic features of the pool, the trust and the holding company.

11. Describe any agreement of which you know, made between merchants or manufacturers for the purpose of regulating prices. Did prices go up or down as a result?

12. What is a simple price agreement? How does it differ from a pool? Is there any difference in the matter of legality? Reasons.

13. What are the limits to the price-fixing and profit-earning powers of monopolies? Are there any other conditions which will tend to check the indefinite growth of combinations?

14. Explain and illustrate by a concrete example the circumstances relating to cost of production which tend to make a monopoly price lower than the previous competitive price for the same article. No reference is here intended to local or temporary cuts in price by monopolies which are intent by such means on capturing a local market.

15. If all trade is exchange, do not the members of a trust reduce their income when they raise the price of their products by artificial agreement?

16. Five plants engaged in the production of a given article in different parts of the United States are combined under the ownership of a single corporation formed for this purpose. Before the combination these five plants produced 75 per cent. of the total output of the article in question, each producing approximately 15 per cent.; the remaining 75 per cent. was produced by seven plants, no one of these turning out more than 5 per cent. of the total output. Each of the first five plants was large enough to secure all known economies in the costs of transforming the raw material into the physically finished product, and each was running to its full capacity. The aggregate net earnings of the five plants were $1,000,000 a year. The cost of reproducing these five is $14,000,000. The new corporation issues and pays to the owners of the properties taken over $10,000,000 in 5 per cent. first mortgage bonds, $6,000,000 in cumulative preferred stock, and $8,000,000 in common stock.

What will determine whether this combination possesses monopoly power?

Is the corporation overcapitalized? If so, to what extent? State clearly what you mean by overcapitalization?

Is it probable that the earnings of the new corporation will be greater than the aggregate earnings of the five plants, if the price of the product is not increased? If so, how will this increase be gained?

If there is an increase in earnings, how will the price of each of the three kinds of securities of the corporation be affected?

17. Suppose that the effective demand for a certain kind of goods

in the country as a whole will vary in the following manner with the price changes indicated:

$1.00	1,000,000 units
1.10	900,000 units
1.20	800,000 units
1.30	700,000 units
1.40	600,000 units
1.50	500,000 units
1.60	400,000 units
1.70	300,000 units
1.80	200,000 units

There are ten companies each producing 100,000 units at a cost of 90 cents (including all costs but an allowance for dividends on investment) this giving just enough of a margin to each company to cause it to continue in the industry. What immediate effect on prices could a combination consisting of six firms have, assuming that the cost per unit of product and that the output of the independents remain unchanged? Show for each of the prices indicated what the amount of the margin made by the four independent competitors (altogether) and by the combination would be. What less immediate effects would be likely to follow, and why?

18. Is granting patents an interference with trade similar to tariffs?

19. Is it right that the lucky inventor of a popular toy should make $100 a day from it?

20. Is it right that an inventor should by patent laws be able to keep the profits of his business high?

CHAPTER 29

PUBLIC POLICY IN RESPECT TO MONOPOLY

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QUESTIONS.

1. What is the trust problem?

2. Does the public consider the growth of trusts to be good or bad? What do students of the question think of it?

3. Which one of the following views do you think to be nearest the truth and why? (a) The trust is a natural and inevitable outcome of modern conditions and is a distinct economic gain. (b) The trust is a result of special privileges and corporate abuses. (c) The trust is the greatest invention of this or any other age.

4. Would it be a good thing for society if a trust made great economies in production, crowded out its smaller competitors, and maintained prices just where they were before, dividing among its shareholders the amounts saved?

5. How would the effects on society be different if prices were reduced by better organization and the prevention of waste?

6. If it could be shown that trusts have lowered prices, should that fact exempt them from all interference from legislation?

7. Describe briefly the "unfair practices" of monopolistic corporations. What specific features of the recent railroad and trust legislation are aimed at the prevention of these practices?

8. Is it good public policy to allow a trust to undersell its smaller competitor in one district while it keeps up its prices elsewere?

9. Are most positive laws intended to hinder competition or make it freer?

10. Copy from the statutes of two states far apart, those sections that pertain to anti-trust or anti-monopoly legislation. Note the general nature of this legislation, special features, penalties for violations, etc., and discuss.

11. What are the main provisions in one of the following: (a) Sherman Anti-Trust Law, (b) Massachusetts Business Corporation Law, (c) The New Companies' Acts, England, (d) German Company Law.

12. Abstract and discuss the Northern Securities decision. Do you see any arguments to be advanced for pooling? Do you think the decision effective in stopping pooling? Ripley (Ed.), Trusts, pools and combinations.

CHAPTER 30

PUBLIC OWNERSHIP

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QUESTIONS.

1. Does every government enterprise necessarily narrow the field for private enterprise and diminish the amount of competition?

2. What forms of state activity favor survival of unfit men and bad traits of character? What forms help the fittest to survive?

3. What are municipal franchises? Where are they?

4. Why does the public consent to grant patents or public franchises?

5. What kinds of municipal industries have you seen in operation? How successful were they?

6. What are the main arguments for and against the city ownership and control of gas and waterworks? What troubles arise from city politics?

7. Name the industries that are owned and controlled by towns and cities of which you have a personal knowledge.

Which of them are most satisfactory in your judgment? Which the least so?

8. What is the public sentiment in your home community as to the ownership of industries by the town or city?

CHAPTER 31

SOME ASPECTS OF SOCIALISM

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QUESTIONS.

1. In the last analysis is there anyone—retired capitalist or unskilled day-worker—whose title to the real income he receives is derived solely from the property he owns, or solely from the labor he performs?

2. What is it to earn a living? How many people do it?

3. If capital is needed in production why is the question of justice raised when its use is paid for?

4. What is the doctrine of economic harmonies? Give three examples (distinct in kind) in modern legislation which run counter to this doctrine, with the justificaton for each of these.

5. Define charity. Apply the general principles of charity to free schools, free libraries, and free clothing to school children.

6. What is economic freedom? How different from political freedom?

7. Is custom a better regulator of economic action than competition?

8. What are vested rights? Do they ever stand in the way of progress? Examples.

9. Distinguish between the socialistic and the competitive principles of distribution.

10. What classes of thinkers are most inclined to take up socialism? (Classes considered socially, industrially, as to race, as to economic and historical training.)

11. If socialism reduced the total product, would it still be desirable because of the better distribution?

12. What effect would it have if the state should make laborers work for unsuccesful employers at lower wages than for successful ones? Or should reduce rents for the less capable merchants and manufacturers?

13. Is there any rule for determining the limits of state interference?

14. If you had the power, what single public measure that you believe would be practicable and effective would you put on the statute books, in order to make a juster division of the social income? Give reasons.

15. The wealth of the United States increased from $7,000,000,000 in 1850 to $188,000,000,000 in 1912. How was this wealth distributed according to (a) the socialistic theory of value? (b) the single tax theory? (c) the theory of value under competitive conditions?

16. What are the chief ways in which the rule of competitive value has been nullified in this period.

17. Would socialism guarantee steadiness or regularity in economic activity, thus eliminating the phenomena of economic crises and depressions?

18. In what way does taxation now shift the distribution of real incomes as among persons? By what other methods and in what degree could such taxation be extended?

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